

Congress of the United States
Washington, DC 20515

May 15, 2019

The Honorable Jerome Powell
Chairman
Board of Governors of the Federal Reserve
System
20th Street and Constitution Avenue, NW
Washington, DC 20551

The Honorable Joseph Otting
Comptroller of the Currency
Office of the Comptroller of the Currency
400 7th Street, SW
Washington, DC 20219

Alfred M. Pollard
General Counsel
Federal Housing Finance Agency
Constitution Center
400 7th Street, SW
Washington, DC 20024

The Honorable Jelena McWilliams
Chairman
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Barry F. Mardock
Deputy Director
Office of Regulatory Policy
Farm Credit Administration
1501 Farm Credit Drive
McLean, VA 22102-5090

Dear Chairman Powell, Chairman McWilliams, Comptroller Otting, Director Mardock, and Mr. Pollard:

Thank you for your continued efforts to implement Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act. While the Commodity Futures Trading Commission (CFTC) and Securities and Exchange Commission (SEC) have primary responsibility for implementing Title VII, your agencies play an important role in developing capital and margin rules applicable to institutions under your oversight. We are concerned, however, that your implementation of these rules regarding inter-affiliate transactions is having a negative impact on both productivity and U.S. global competitiveness.

As you know, inter-affiliate transactions are internal transactions that firms utilize to manage risk on a centralized basis and to limit their credit exposure to third parties. They do not create counterparty exposure outside of the corporate group, nor do they increase interconnectedness between third parties. The use of these internal transactions permits firms to provide services to commercial end-users in an efficient and cost-effective way. Despite those facts, firms are required to collect and segregate initial margin between affiliates.

This requirement diverges from both international and domestic rules. When the CFTC under Chairman Timothy Massad implemented Title VII, it included variation margin, centralized risk management, and reporting and anti-evasion requirements for inter-affiliate transactions. But in addition to those requirements, the CFTC exempted inter-affiliate transactions from initial margin because the

associated economic costs weren't warranted by the risk. In addition, regulators in jurisdictions around the world, including Australia, Brazil, Canada, the European Union, Hong Kong, Japan, Korea, Singapore, and Switzerland have all provided similar exemptions from initial margin requirements. In addition to this global consensus, the Treasury has recommended an exemption for inter-affiliate transactions "in a manner consistent with the margin requirements of the CFTC and the corresponding non-U.S. requirements."¹

Segregating this initial margin also sidelines significant amounts of capital that could otherwise be put to more productive use in the economy. A recent market survey by the International Swaps and Derivatives Association, Inc. reveals that the 20 largest swap dealers collected \$39.4 billion of initial margin for inter-affiliate transactions at year-end 2018.² The amount of initial margin being held for these transactions increased by over 30% since July 2017,³ and it is expected this number will continue to rise as US firms prepare new entities to serve clients across Europe after Brexit.

For the foregoing reasons, we ask that you take action expeditiously to modify your margin requirements to provide for an inter-affiliate initial margin exemption that is consistent with CFTC requirements. Thank you for your consideration of this letter. We appreciate and look forward to your response.


Sincerely,



Frank D. Lucas
Member of Congress



Blaine Luetkemeyer
Member of Congress



Bill Huizenga
Member of Congress



Ted Budd
Member of Congress



Steve Stivers
Member of Congress



French Hill
Member of Congress

¹ DEP'T OF THE TREASURY, *A Financial System That Creates Economic Opportunities: Capital Markets* 130 (2017).

² INT'L SWAPS DEALERS ASS'N, *ISDA Margin Survey Year-End 2018*, at 7, available at <https://www.isda.org/a/nIeME/ISDA-Margin-Survey-Year-End-2018.pdf>.

³ Percentage change derived by comparing ISDA survey data from 2017 and 2019.



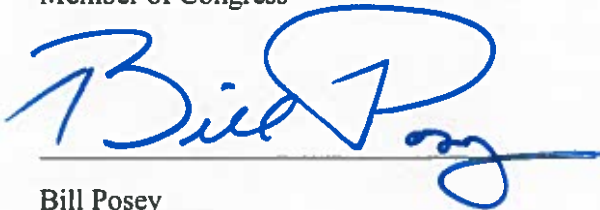
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Member of Congress



Peter T. King
Member of Congress



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Member of Congress



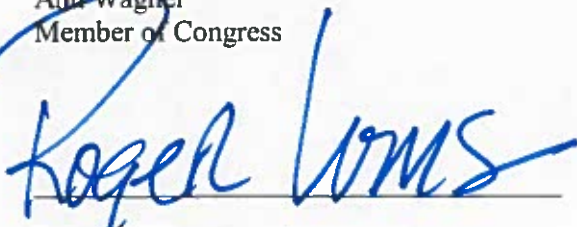
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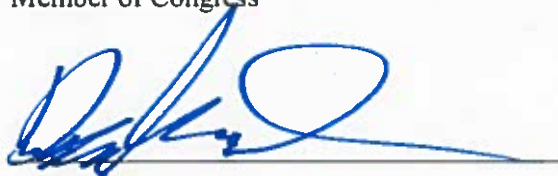
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Alex X. Mooney
Member of Congress



Tom Emmer
Member of Congress

CC: Commodity Futures Trading Commission
Securities and Exchange Commission